

**REPORT OF THE AUDIT OF THE  
CALDWELL COUNTY  
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period  
April 24, 2008 Through April 29, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**CALDWELL COUNTY**  
**SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period**  
**April 24, 2008 Through April 29, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Caldwell County Sheriff for the period April 24, 2009 through April 29, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$3,065,707 for the districts for 2008 taxes, retaining commissions of \$113,099 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,950,806 to the districts for 2008 taxes. Refunds of \$576 are due to the Sheriff from the taxing districts.

**Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Brock Thomas, Caldwell County Judge/Executive

Honorable Stan Hudson, Caldwell County Sheriff

Members of the Caldwell County Fiscal Court

Independent Auditor's Report

We have audited the Caldwell County Sheriff's Settlement - 2008 Taxes for the period April 24, 2008 through April 29, 2009. This tax settlement is the responsibility of the Caldwell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Caldwell County Sheriff's taxes charged, credited, and paid for the period April 24, 2008 through April 29, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2009, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Brock Thomas, Caldwell County Judge/Executive

Honorable Stan Hudson, Caldwell County Sheriff

Members of the Caldwell County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

September 22, 2009



CALDWELL COUNTY  
STAN HUDSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 24, 2008 Through April 29, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 346,512	\$ 517,884	\$ 1,188,535	\$ 423,933
Tangible Personal Property	54,947	78,503	165,344	182,430
Fire Protection	505			
Franchise Taxes	32,026	46,794	102,178	
Additional Billings	115	168	395	141
Oil and Gas Property Taxes	14	21	49	17
Limestone, Sand and Mineral Reserves	2,512	3,668	8,617	3,065
Penalties	3,016	4,486	10,256	4,067
Adjusted to Sheriff's Receipt	265	23	5	
Gross Chargeable to Sheriff	✓ 439,912	✓ 651,547	✓ 1,475,379	✓ 613,653
<u>Credits</u>				
Exonerations	4,217	6,161	14,466	5,145
Discounts	6,227	9,227	20,855	9,610
Delinquents:				
Real Estate	5,383	7,915	18,457	6,565
Tangible Personal Property	63	90	192	190
Oil	3	4	10	4
Total Credits	✓ 15,893	✓ 23,397	✓ 53,980	✓ 21,514
Taxes Collected	✓ 424,019	✓ 628,150	✓ 1,421,399	✓ 592,139
Less: Commissions *	18,308	26,696	42,642	25,453
Taxes Due	✓ 405,711	✓ 601,454	✓ 1,378,757	✓ 566,686
Taxes Paid	405,665	600,973	1,377,608	566,560
Refunds (Current and Prior Year)	334	481	1,149	414
(Refunds Due Sheriff) as of Completion of Audit	\$ (288)	\$ 0	\$ 0	\$ (288)

\* See next page.

The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY  
STAN HUDSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES  
For The Period April 24, 2008 Through April 29, 2009  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,634,308
3% on	\$	1,421,399

The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT

April 29, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Caldwell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 29, 2009  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Caldwell County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 29, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 21, 2008 through April 29, 2009.

B. Limestone, Sand, and Gravel Reserves

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2008 through April 29, 2009.

C. Oil Reserves

The tangible property tax assessments on oil reserves were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 18, 2008 through April 29, 2009.

Note 4. Interest Income

The Caldwell County Sheriff earned \$904 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Caldwell County Sheriff collected \$16,669 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 29, 2009  
(Continued)

Note 6. Advertising Costs And Fees

The Caldwell County Sheriff collected \$2,284 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising costs and advertising fees were used to operate the Sheriff's office. As of September 22, 2009, the Sheriff owed \$200 in advertising costs and advertising fees to his fee account.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Brock Thomas, Caldwell County Judge/Executive  
Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Caldwell County Sheriff's Settlement - 2008 Taxes for the period April 24, 2008 through April 29, 2009, and have issued our report thereon dated September 22, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Caldwell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Caldwell County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Caldwell County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Caldwell County Sheriff's Settlement - 2008 Taxes for the period April 24, 2008 through April 29, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Caldwell County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Caldwell County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 22, 2009

COMMENT AND RECOMMENDATION



CALDWELL COUNTY  
STAN HUDSON, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 24, 2008 Through April 29, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Caldwell County Sheriff's office has a lack of adequate segregation of duties. Due to a limited staff size and the diversity of operations, the bookkeeper is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, and the preparation of checks for disbursements.

Segregation of duties over these tasks or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets, we recommend the Sheriff segregate the duties noted above by allowing different deputies to perform these functions. Also, deputies should be cross-trained to accommodate the rotation of these functions. For those duties that cannot be segregated due to a limited number of staff, then strong oversight should be provided to the employee or employees responsible for these duties.

*Sheriff's Response: We have limited personnel, I have implemented compensating controls, supervising and reviewing financial reports, bank statements, etc.*

